

TVA HEARING  
TRANSMISSION ACCESS  
THURSDAY, MAY 18, 2006  
HOPKINSVILLE, KENTUCKY

Reported by: Karina L. Owen, RPR/CSR

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1 APPEARANCES:

2  
3 **TVA BOARD MEMBERS:**

4 Bill Sansom, Chairman  
5 Bill Baxter  
6 Denny Bottorff  
7 Don DePriest  
8 Mike Duncan  
9 Skila Harris  
10 Howard Thrailkill  
11 Susan Williams

12 **PANEL #1 - NOTICED DISTRIBUTORS**

13 Jim Allison - GM, Duck River Electric Membership  
14 Corp., Tennessee  
15 John Humphries - Superintendent, Princeton Electric  
16 Plant Board, Kentucky  
17 Gerald Hayes - President/CEO, Warren Rural Electric  
18 Cooperative Corp., Kentucky  
19 Ray McLennan - Board Chairman, Paducah Power System,  
20 Kentucky

21 **PANEL #2 - NON-NOTICED DISTRIBUTORS**

22 Fred Hayslett - GM, Columbus Light & Water Department,  
23 Mississippi  
24 Harold DePriest - President/CEO, EPB (Chattanooga),  
25 Tennessee  
26 George Kitchens - GM, Joe Wheeler Electric Membership  
27 Corp., Alabama  
28 Eston Glover - Manager, Pennyryle Rural Electric  
29 Cooperative Corp., Kentucky

30 **PANEL # 3 - OTHER**

31 Jack Simmons - President/CEO, Tennessee Valley Public  
32 Power Association  
33 Ed Bredniak, President, CMCC, Calvert City, Kentucky  
34 Roy Palk - President, East Kentucky Power Cooperative  
35 Mark David Goss - Chairman, Kentucky Public Service  
Commission

1 TVA HEARING

MAY 18, 2006

2 HOPKINSVILLE, KY

10:00 A.M.

3  
4 MR. KILGORE: Good morning to everyone.  
5 Welcome to the first hearing by the TVA board of  
6 directors. I'm Tom Kilgore, the president and acting  
7 chief executive officer of TVA. The subject of this  
8 hearing is transmission access, and we appreciate  
9 everyone being here today to learn more about this  
10 important issue.

11 I would like to thank all of those who  
12 helped make this event possible. Benjamin Franklin  
13 once said, Who is wise? And then he answered his own  
14 question by saying, The person that learns from  
15 everyone, so that's what we're here today to do is to  
16 learn from a variety of views.

17 The subject is of great importance to  
18 everyone here, because we all depend on reliable  
19 electric power, and because transmission access is so  
20 important, this newly expanded board has chosen to have  
21 a first of a kind hearing here in Kentucky on this  
22 subject.

23 Our goal is to provide a forum for our  
24 customers and other interested parties to discuss their  
25 opinions and concerns publicly and directly with the

1 TVA board. Let me repeat that. The goal for today is  
2 to provide a forum for our customers and other  
3 interested parties to discuss their opinions and  
4 concerns publicly and directly with the TVA board.

5 We're modeling this session loosely on  
6 the format used for congressional hearings with the  
7 panels of speakers representing a broad range of views.  
8 Today's session will, we anticipate, run from now until  
9 about 1:00. We'll have a break after the second panel.  
10 The panels will last about 50 minutes a piece. We'll  
11 go from panel one directly to panel two, and when the  
12 panel one is finished, I'll come back and introduce  
13 panel two.

14 So let's welcome our first group of  
15 panelists, who are already seated. The panel is  
16 composed of four of TVA's 158 distributor customers.  
17 Each one of these four have given TVA notice. I'll  
18 introduce them briefly and then when they start their  
19 remarks, they'll give their name again.

20 First, Jim Allison, the general manager  
21 of Duck River Electric Membership Corporation. Second,  
22 Gerald Hayes, president and CEO of Warren Rural  
23 Electric Cooperative Corporation here in Kentucky.  
24 Third, John Humphries, who leads the Princeton Electric  
25 Plant Board here in Kentucky. Ray McLennan, board

1 chairman of Paducah Power Systems, also here in  
2 Kentucky.

3           Gentlemen, we appreciate you being  
4 here, and after our chairman makes a few welcoming  
5 remarks, I would like you to reintroduce yourself  
6 briefly, and then begin your remarks. After -- I'll  
7 give you a few ground rules. We're asking everybody to  
8 limit their comments to about five minutes, and then  
9 that will give the board time, when all four of you are  
10 finished, to ask you questions, and basically for there  
11 to be an interchange between the board and the panel.  
12 So when you've got about two minutes left, the -- I  
13 think it's the green light will come on, and then when  
14 you're out of time, the red light will come on. We're  
15 not going to use a hook, but you might worry about  
16 whether or not your chair will fall out from under you.

17           No. Seriously, we're just giving you  
18 that so everybody can kind of stay on key, and so with  
19 that, Mr. Chairman, I'll turn the podium to you.

20           MR. SANSOM: When your time is up, the  
21 power goes off. I want to welcome all of you and the  
22 panelists for being here. We're -- this is a new  
23 board. As you all know, we're interested in your --  
24 what's going on, and we -- obviously, when we were in  
25 Washington for our confirmation hearings, we heard a

1 lot about this issue from the senators there and their  
2 staffs, and so we thought it was important to come here  
3 and listen to what y'all had to say to us.

4 We're new, we just met most of you, and  
5 we hope to continue this dialogue and solve these  
6 problems, so thanks for being here, and on behalf of  
7 the board, we welcome you, and welcome your comments,  
8 and we'll start with you.

9 MR. ALLISON: If it's all right with  
10 you, Mr. Chairman, we've decided to start with Gerald,  
11 if that's okay.

12 MR. SANSOM: Okay. That's all right.

13 MR. HAYES: Mr. Chairman, members of  
14 the TVA board, special guests, good morning and welcome  
15 to Kentucky. I am Gerald Hayes president and CEO of  
16 Warren Rural Electric Cooperative in Bowling Green,  
17 Kentucky. During the past six years as president, my  
18 greatest endeavor in serving our membership has been to  
19 provide the highest quality electricity at the lowest  
20 possible cost.

21 Shortly after I assumed the role of  
22 president, Warren identified the long-term power supply  
23 as a major strategic issue facing our cooperative  
24 because of rate disparity between Warren and other  
25 utilities in Kentucky who purchased power from various

1 other suppliers.

2 Warren undertook an extensive study and  
3 evaluation of wholesale power options. When we  
4 completed our four-year search and evaluation process,  
5 staying with TVA was one of our top three options that  
6 we had that was available to us.

7 Warren determined that the preferred  
8 plan was to become a member of East Kentucky Power  
9 Cooperative. It was a very difficult decision to leave  
10 TVA after 62 years. However, our board and management  
11 team determined it was in the best interests of  
12 Warren's members to become a member of East Kentucky.  
13 Warren signed a 33-year contract with East Kentucky in  
14 May of 2004.

15 As a member of East Kentucky, Warren  
16 will build equity through investment in the generation  
17 and transmission assets that will serve us. We will  
18 also have a voice in the decisions that will affect our  
19 future. As part of the East Kentucky Power and Supply  
20 Plan, East Kentucky and Warren evaluated two options  
21 for transmission service.

22 First, was that East Kentucky would pay  
23 TVA to provide transmission service to the southern  
24 portion of Warren service area where over 80 percent of  
25 our load is located. That ceased to be an option when

1 TVA would not agree to provide transmission service to  
2 enable East Kentucky power to serve Warren.

3 Second, was for East Kentucky to serve  
4 Warren through new and existing East Kentucky  
5 transmission lines along with reliability  
6 interconnections to the existing TVA transmission  
7 system. This option offers a more economical choice  
8 for transmission service along with increased  
9 reliability for the whole region.

10 In addition to the benefits described  
11 above, the plan addresses the need for improvements to  
12 the area of bulk transmission system, which includes  
13 part of TVA's transmission system and East Kentucky's  
14 need for the reliability interconnections. The plan  
15 also integrates Warren's need to upgrade several miles  
16 of older transmission lines within our service area.

17 East Kentucky applied to the Kentucky  
18 Public Service Commission for a certificate of public  
19 convenience and necessity to construct the transmission  
20 lines needed to deliver power to Warren. In October of  
21 2005, the commission approved East Kentucky's proposal  
22 to build the new transmission lines called for in our  
23 plan, and we are moving forward aggressively with  
24 implementation.

25 After TVA refused to agree to an



1 interconnection agreement, East Kentucky applied to the  
2 Federal Energy Regulatory Commission for TVA to  
3 interconnect with EKP for reliability. TVA currently  
4 has reliability interconnection agreements with 13  
5 other generating and transmission entities. TVA also  
6 has interconnections in place with East Kentucky at six  
7 locations. East Kentucky simply asked that three  
8 additional reliability interconnections be added to  
9 Warren's service area.

10 FERC has ordered TVA to provide the  
11 interconnections, but TVA has requested a rehearing for  
12 the FERC order as a possible prelude to an extended  
13 court appeal and battle. This will only cause further  
14 delays, uncertainty, and expense for Warren and its  
15 membership. Both East Kentucky and Warren have  
16 invested a tremendous amount of time and resources into  
17 the execution of this plan. Construction of the new  
18 transmission lines by East Kentucky, coupled with  
19 reliability interconnections agreements with TVA, will  
20 provide south central Kentucky with enhanced  
21 reliability at the most economical cost. Your decision  
22 can help this plan move forward quickly.

23 Assuming that the TVA transmission  
24 access waiver under the TVPPA nonlegislative solution  
25 means that East Kentucky will receive interconnections

1 as directed by FERC without further objection or delays  
2 from TVA, Warren supports the TVPPA nonlegislative  
3 solution. We request that the board not only give  
4 permission, but also direct the CEO and the legal staff  
5 to implement the solutions as presented in a timely  
6 manner. Thank you very much for your time.

7 MR. SANSOM: Thank you, Gerald. John,  
8 you're next.

9 MR. HUMPHRIES: Yes. Good morning.  
10 I'm John Humphries, the general manager of the  
11 Princeton Electric Plant Board in Princeton, Kentucky.  
12 I appreciate the invitation to speak at this hearing of  
13 the TVA board to provide the perspective of the  
14 Princeton Electric Plant Board serving Princeton,  
15 Kentucky, a community of approximately 7,500 residents.

16 We urgently request the TVA board to  
17 authorize and direct Tom Kilgore to enter into  
18 contracts with power distributors, to implement the  
19 plan negotiated and developed by the Tennessee Valley  
20 Public Power Association and TVA senior management,  
21 with participation of the noticing distributors.

22 We respectfully request that the  
23 contracts be finalized and executed within 60 days.  
24 Princeton formed its public power entity in 1957 and  
25 took power from TVA via Kentucky utilities transmission

1 facilities for five years starting in 1961.

2 TVA started serving Princeton Electric  
3 Plant Board's load using its own lines in the sixth  
4 year of operation. We now serve about 4,000  
5 residential, commercial, and industrial customers.  
6 Today there are four electric providers inside the city  
7 limits of the small town of Princeton.

8 Princeton Electric Plant Board and TVA  
9 entered into an all requirements agreement amendment in  
10 1997. The contract provided that after October 2002,  
11 we would have the option of terminating the contract  
12 upon five years notice to TVA. Accordingly, when a  
13 thorough study of Princeton's long-term power supply  
14 revealed that there were less expensive sources of  
15 reliable power available to Princeton, we exercised our  
16 option to terminate the TVA contract, with the  
17 expectation that our interconnection with TVA would  
18 remain in place and that transmission service would be  
19 available from TVA if needed.

20 In 2005 the Paducah Power System and  
21 Princeton Electric Plant Board formed the Kentucky  
22 Municipal Power Agency under the Kentucky Interlocal  
23 Agreement Act for the joint purpose of buying base load  
24 power from Prairie State Energy Campus in Washington  
25 County Illinois. Through KEMP arrangements to be

1 completed in 2010, the Princeton Electric Plant Board  
2 and Paducah Power System will be able to offer lower  
3 rates and increased reliability to our respective  
4 communities.

5 I have personally worked with TVA,  
6 TVPPA over the past year to help develop a contractual  
7 solution to our transmission issues. This joint plan  
8 makes good business sense for TVA. The plan was  
9 initiated by TVA's management, and is broadly supported  
10 by distributors. It is consistent with the TVA mission  
11 and national policy. It protects and strengthens TVA's  
12 financial position, with TVA generating resources  
13 tight, any relief from pressures of load growth may  
14 well turn out to be economically beneficial to TVA.

15 Included in the plan is support for a  
16 limited two-way fence lowering, which, if adopted by  
17 the U.S. Congress, would provide new marketing  
18 opportunities for TVA. The '97 contract promised an  
19 option for the Princeton Electric Plant Board to leave  
20 the TVA system, and we believe the option necessarily  
21 includes access to TVA's transmission grid. FERC has  
22 already ordered interconnections with East Kentucky  
23 Power Cooperative in connection with this commitment to  
24 provide power supply service to Warren Rural Electric,  
25 another distributor that has exercised its option to

1 terminate under the TVA contract.

2 We are working hard to secure the  
3 lowest price source of reliable power for our  
4 customers. Securing a long-term power supply for  
5 Princeton may require the construction of transmission  
6 facilities, which, obviously, takes a considerable  
7 amount of time. Accordingly, we need to finalize in  
8 the very near future our plans for obtaining wholesale  
9 power. Therefore, we need assurance from TVA now that  
10 transmission access and/or interconnection will be  
11 available from TVA in order for the Princeton Electric  
12 Plant Board to be able to proceed in an expeditious and  
13 timely manner on these other related issues.

14 In conclusion, it is time for the TVA  
15 and the noticing distributors to resolve the  
16 transmission issues through execution of a contract  
17 that memorializes the arrangement that has been  
18 negotiated by TVA, TVPPA, and the noticing  
19 distributors. TVA helped Princeton in 1961 develop a  
20 public power community, and we are asking you again  
21 today for your help in a very different way in a very  
22 different environment. Thank you.

23 MR. SANSOM: Thank you, John. Ray.

24 MR. MCLENNAN: My name is Ray McLennan,  
25 and I'm chairman of the board of the Electric Plant

1 Board of the City of Paducah. Chairman Sansom, and  
2 members of the TVA board, I'm pleased to be able to  
3 discuss with you today the issues facing Paducah Power  
4 System and our rate payers. I'm going to give you a  
5 little background and summary of how we currently feel  
6 and a possible solution to ease those feelings.

7           The Electric Plant Board of the City of  
8 Paducah has been a distributor of TVA power since 1962.  
9 Before that time, Paducah was served by Kentucky  
10 Utilities Company. The reason we left Kentucky  
11 Utilities was high cost wholesale power and the effect  
12 that it was having on our customers. It also was  
13 having a negative effect on our search for new business  
14 located in our area. The people of Paducah voted to  
15 condemn and ultimately purchase the assets of KU in  
16 Paducah.

17           They began a partnership with TVA,  
18 purchasing all their power needs from TVA. In 1967 the  
19 Paducah Power System signed a five plus five contract  
20 amendment with TVA. The contract said that if we did  
21 not give notice for at least five years, then we could  
22 give a five-year notice at that time with no stranded  
23 cost charged to leaving the distribution --  
24 distributor.

25           We gave notice to TVA in December of

1 2004 that we would leave in December of 2009. The  
2 problem, we have purchased an interest in a large new  
3 coal fired generation plant in southern Illinois. We  
4 also need to either purchase or generate additional  
5 power supply over that base amount. We need to have  
6 assurances that we can obtain reliable delivery of that  
7 power at a reasonable cost. We've spent a lot of money  
8 on this project and need as firm a commitment from TVA  
9 as possible that would expand our options to have  
10 transmission access over the TVA reliable system. We  
11 also would like to have an interconnection with TVA's  
12 grid system.

13 If Paducah Power becomes the  
14 transmission customer of TVA, we will pay TVA to  
15 transmit someone else's power to Paducah just as  
16 Kentucky Utilities did when they had the right to use  
17 TVA's grid that transmits power as the did when they  
18 served Paducah and would serve the customers now if we  
19 had not joined TVA. That's a very important issue  
20 here.

21 It's not fair to penalize the customers  
22 of Paducah because they became a TVA distributor. It  
23 would be fair to assume Paducah Power with all the  
24 rights and privileges it had before it was parted with  
25 TVA when it leaves. Especially considering the fact

1 that we have lived up to all parts of every contract  
2 we've ever had with TVA. Yeah, I'm a little emotional  
3 with this.

4           However, this is not what TVA has  
5 offered in the past. Instead, TVA wants to treat the  
6 customers of Paducah as second class citizens and make  
7 them pay -- and construct transmission lines to other  
8 providers because we are not allowed to pay to use the  
9 TVA grid or to get power delivered. I ask you, is this  
10 fair. Paducah Power System simply wants to direct the  
11 CEO to offer transmission and interconnection service  
12 to us at just and reasonable rights.

13           The joint plan that TVA and TVPPA have  
14 worked out would be a fair and reasonable approach to  
15 this problem. Departure of Paducah Power System only  
16 reduces TVA energy sales by less than one-half of one  
17 percent in 2010. This is much less than an average  
18 growth in your energy sales. It's not going to cause  
19 any hardships, you know, TVA experiences in three  
20 months.

21           This is simply not a time for this  
22 matter to wind its way through legal or congressional  
23 solutions. We have this new board, which I hope has a  
24 new vision, to delve TVA into a bright new beginning,  
25 not let the history set your boundaries and being free



1 enough to explore new territory. Don't act like the  
2 past, explore the future, change things. That's all  
3 I'm asking.

4 To the board members of TVA who believe  
5 the fence should be lowered for the amount of sales  
6 lost through the noticing distributors, I say the  
7 Paducah Power System will work with others to get  
8 congress to allow this to happen as will all noticing  
9 distributors in TVPPA under the joint plan.

10 Just remember that what is leaving is  
11 not a large amount of load and transmission  
12 interconnect rights and other nonlegislative elements  
13 of the plan need to be done first and separate from  
14 legislation which take more time. We can't afford to  
15 wait that long. Paducah Power cannot wait. Please do  
16 what is right and just. I thank you for the  
17 opportunity to address you.

18 MR. SANSOM: Thank you, Ray.

19 MR. ALLISON: Thank you, Mr. Chairman,  
20 members of the TVA Board, I'm Jim Allison from the Duck  
21 River Electric Membership Cooperative in Shelbyville,  
22 Tennessee. And as you may be aware, we're the only  
23 non-Kentucky system that has an outstanding contractual  
24 notice to TVA. We all have filed written comments. I  
25 have copies that I'll give you when I get done with my

1 statement and we get done with the questions and  
2 answers. For obvious reasons, we've had to shorten our  
3 verbal comments, but we would encourage you to read  
4 them very closely as we do elaborate in greater detail  
5 in those.

6 Duck River Electric, again, is a  
7 cooperative. We serve approximately 67,000 members in  
8 southern and middle Tennessee. We're governed by an  
9 elected 14 member board of directors, several of which  
10 are with us in the audience today. With a peak demand  
11 of about 400 megawatts, we're one of TVA's 15 largest  
12 customers. We followed with great interest TVA's  
13 struggle over the last many years with the issue of its  
14 debt reduction.

15 We, as early as 2000, went on record in  
16 writing, encouraging the TVA board to increase its  
17 rates and reduce its debt while it still had all the  
18 distributors around that could contribute to that debt  
19 reduction effort. However, TVA did not act on our  
20 encouragements at that time. Rather as the magic date  
21 of October the 1st, 2002 rolled around, we watched as  
22 several other systems within TVA gave notice to TVA,  
23 and as a result of those other notices, we started  
24 reviewing our options.

25 We fairly -- we did a very extensive

1 and thorough review and came to two quick decisions  
2 after our study. First off, is that we could replace  
3 TVA as a power supplier at that time at prices well  
4 below what we were paying TVA.

5 Secondly, and more importantly, we came  
6 to the conclusion that it would be a terrible mistake  
7 on our part to sit around and allow other distributors  
8 to leave, leaving behind their share of TVA's debt that  
9 would increasingly be concentrated in the hands of  
10 fewer and fewer distributors, because at some point  
11 that would become catastrophic to the systems that  
12 would be left.

13 We, eventually, decided to give notice  
14 to TVA in August of 2003. In giving that notice,  
15 however, we advised TVA that we were doing it as a  
16 defensive measure, to protect our members in the event  
17 that TVA did lose a significant amount of load. We  
18 indicated to TVA a willingness to work exclusively with  
19 TVA at least for the first part of that notice period  
20 to try to address what TVA acknowledged were very  
21 legitimate concerns on our part. And, again, we  
22 offered to work exclusively with TVA.

23 Rather than reacting favorably to our  
24 offer, TVA reacted with a series of steps that we  
25 regarded as punitive, in an effort to try to pressure

1 us into rescinding our notice, by taking away the  
2 programs, calling loans due, withholding needed  
3 improvements in the transmission system. And, over a  
4 period of months, our relationship with TVA, frankly,  
5 deteriorated to a very considerable degree because of  
6 those steps that we regarded as pressuring.

7 Eventually, however, they turned  
8 around. We found a solution to our transmission  
9 issues, and I want to say that we're very appreciative  
10 for Mrs. Maureen Dunn for her personal involvement and  
11 subsequent to his arrival, Tom Kilgore. Working with  
12 these two individuals was a breath of fresh air  
13 compared to what we had gone through prior to that, and  
14 we're very grateful for their efforts.

15 And we've continued our discussions,  
16 and eventually and recently have most recently  
17 concluded that we wanted to extend our notice period  
18 with TVA, and as a result have recently signed an  
19 agreement that extends our notice period from August  
20 2008 to August 2010. And, again, we're very  
21 appreciative of the help that Mr. Kilgore and Mrs. Dunn  
22 gave in that respect.

23 So we will remain a TVA customer  
24 through at least August 2010. In all candor, unlike  
25 several of the other members of the panel, we have not

1 made a decision to leave or stay with TVA. We are  
2 going to take a very close look at that. In my written  
3 comments, I comment on some of the factors that we're  
4 going to be looking at, and, again, I would encourage  
5 you to look at those.

6 The transmission access is a crucial  
7 issue to us, because unlike several of these other  
8 systems, we're located smack dab in the middle of the  
9 TVA system. Very bluntly put, without transmission  
10 access, our ability to give notice under the contract  
11 means nothing, so we followed it very closely.

12 One of our major concerns is that until  
13 very recently, the model that's been advocated by TVA  
14 to implement the '97 contract amendments would be  
15 catastrophic to those in the middle of the TVA system.  
16 If you follow the logic that only the systems that can  
17 leave are those systems that give notice and that can  
18 build transmission into their system, that means that  
19 the system is going to peel away in layers, like an  
20 onion peeling away in layers, if you will, from the  
21 outside in. That's going to concentrate that debt in  
22 the hands of the systems like ours that are located in  
23 the middle of the system, and it's our opinion that  
24 that model just cannot be allowed to survive.

25 Again, under the leadership of Tom

1 Kilgore and Jack Simmons from TVPPA, a new framework  
2 has been negotiated. It's supported by TVA management;  
3 it's supported by TVPPA; it's supported by these  
4 noticing distributors; it's a series of compromises.  
5 It doesn't give us all everything we want, but we like  
6 the plan. All that's missing is you authorizing and  
7 directing your management team to implement it, and we  
8 would encourage you in the strongest possible terms to  
9 do that. It provides for a measured, controlled rate  
10 of departure from the TVA system that will avoid this  
11 catastrophic peeling of the onion that's concerned Duck  
12 River Electric for so very long.

13 We thank you for the opportunity to be  
14 with you today, and our panel is prepared to answer  
15 your questions.

16 MR. SANSOM: Thank you all very much.  
17 Well, I'll turn to the board and offer an opportunity  
18 for questions. I'm going to ask one.

19 John, one of you all referred to the  
20 Illinois -- is that where your option to go is  
21 Illinois, is that what you said?

22 MR. MCLENNAN: Prairie State. Peabody  
23 Coal is building a plant about 50 miles south east of  
24 St. Louis. It's a mine mouth coal plant. I mean, it's  
25 a generating plant there, and it's in the process of

1 going forward.

2 MR. SANSOM: I thought the way you  
3 said -- so you're not a part owner of that? You don't  
4 have anything --

5 MR. MCLENNAN: We will be a part -- we  
6 will be a 60 percent owner of that generating plant,  
7 1600 megawatt plant.

8 MR. SANSOM: Are there more -- how many  
9 owners would be --

10 MR. MCLENNAN: There's several entities  
11 involved, EMPAS, some other groups. Approximately 60  
12 percent of the plant will be owned by public --

13 MR. SANSOM: People like you.

14 MR. MCLENNAN: Partnered with that and  
15 40 percent will be owned by investor owned utilities or  
16 Peabody.

17 MR. SANSOM: Okay.

18 MR. HUMPHRIES: It's a consortium of  
19 co-ops, municipals, investor owned utilities, 60  
20 percent approximately is public power in Illinois,  
21 Missouri, Indiana, Michigan, and Wisconsin. We have --  
22 Paducah and Princeton are closest physically,  
23 geographically to the plant.

24 MR. SANSOM: What about their rates?  
25 So they projected all the -- everything it takes and

1        what the rate forecast is I'm assuming?

2                    MR. HUMPHRIES: Paducah and Princeton  
3        have both done extensive studies over a period of a  
4        number of years to analyze the costs. We continue to  
5        monitor the costs. The costs appear to offer a 15  
6        percent savings based on a projected increase of TVA  
7        based on what TVA's published. We use TVA's published  
8        numbers of increases in the future and at those rates  
9        that project looks very good, very promising. It  
10       continues to look good financially for both systems,  
11       and we continue to pursue it. Of course, the continued  
12       increase in rates by TVA, just makes it look better.

13                   MR. SANSOM: What if you -- so if being  
14       an owner, part of the issue is that attractive to you,  
15       where I'm sure it is, but I'm just kind of interested  
16       in is that part of your decision?

17                   MR. HUMPHRIES: It is. It's an equity  
18       type of model. After the bonds are paid off, we would  
19       have equity in the plant that we could sell or if we  
20       wanted to -- but we would continue to operate it as an  
21       owner, and that would be attractive, that is more  
22       attractive than -- it's kind of like a house. You can  
23       buy a house or rent a house. It's cheaper in the long  
24       run to buy a house. By the same token, it's cheaper to  
25       buy a plant than it is to rent a plant.



1 MR. SANSOM: How do you invest the  
2 capital? Do you sign on as the supporter of the debt,  
3 if you will, or do you actually have to have capital on  
4 it?

5 MR. MCLENNAN: No. We would finance a  
6 certain percentage of the debt ourselves, but a good  
7 portion of it would be taxes and bonds, some it would  
8 not, but -- that would actually -- we would -- hold  
9 that 60 percent of the plant we would hold on debt  
10 ourselves. KEMPA would, the organization that we formed  
11 between Princeton and Paducah, would own that  
12 percentage debt.

13 MR. SANSOM: And so your entity would  
14 sign on to supporting a piece of that debt?

15 MR. MCLENNAN: That's correct.

16 MR. SANSOM: Okay.

17 MR. HUMPHRIES: KMPA would have the  
18 debt and the equity and we would sign an agreement with  
19 KMPA to buy the power. That would better use -- the  
20 revenue would be used to retire the debt and that's  
21 a -- each entity, each participating entity, would use  
22 their own financing mechanisms and every one has a  
23 different way to do it.

24 MR. SANSOM: What would be your time  
25 commitment? If you go in, you're an equity owner, what

1 would your board have to commit to time on that one? I  
2 mean, you had a five and five with TVA. What would you  
3 have to commit to them to -- do you know that yet?

4 MR. HUMPHRIES: We own it forever  
5 unless we sell it.

6 MR. SANSOM: No. I'm talking about  
7 your buying from that entity? I understand you're  
8 going to own it.

9 MR. HUMPHRIES: I'm not -- I guess I  
10 don't --

11 MR. BOTTORFF: Do you have a price  
12 contract for a supply of power?

13 MR. SANSOM: And do you have a term and  
14 a price contract? You answered that you don't have  
15 price yet.

16 MR. HUMPHRIES: Well, the way this  
17 project is set up, it's -- you own the plant, you own  
18 the mine, so your fuel and your capital are fixed. The  
19 variable costs is the labor to get the coal from the  
20 mine to the plant, which is very small, since it's a  
21 mine mouth plant.

22 MR. MCLENNAN: In the engineer's  
23 estimate, there's 30 years worth of coal in that plant  
24 to supply your generation, while you have your 30 years  
25 worth of debt to pay them.

1 MR. SANSOM: But even though you're an  
2 equity owner, you still have to have a separate  
3 agreement that I'm a buyer of that power, right?

4 MR. MCLENNAN: Well, as far as you --  
5 we would have the right to distribute that power, 60  
6 percent of the power out of that plant any way we felt  
7 like, but we would sign with KMPA an agreement that we  
8 would buy all the power that KMPA has coming from  
9 there. That's the underlying power that helps to  
10 finance the bonds.

11 MR. SANSOM: Okay, I understand.

12 BOARD MEMBER: And the length of that  
13 contract.

14 MR. HUMPHRIES: The length of the  
15 bonds. It's -- the length of the bond is 30 years.

16 MR. MCLENNAN: So it's a 30-year  
17 contract.

18 MR. HUMPHRIES: And then after the  
19 bonds are paid off, we still have the equity.

20 MR. BAXTER: So it's a 30-year  
21 contract, but you don't know what the price of the  
22 power will be?

23 MR. MCLENNAN: Like you, you don't know  
24 what your power is going to be tomorrow, because the  
25 cost is going up. At least in our case, we know how

1 much the bonds are going to cost. We'll know how much  
2 the coal is going to cost. We've already paid for it.

3 The only variable we have will be labor  
4 costs of mining the mine, labor costs and  
5 administrative costs of running the generations, so our  
6 variable expenses will be less than what you may have  
7 in some of your plants unless you all have -- unless  
8 you already have a contract for the coal.

9 MR. BAXTER: Do you have a know price  
10 to start with?

11 MR. MCLENNAN: It's hard to say right  
12 now, because we can't get it firmed down yet until --  
13 the EAD board has had for about four months now our  
14 appeal of our air permit. Until they actually issue  
15 the air permit, it would be hard time for us to go out  
16 and get a construction contract and get the vendor to  
17 sign down for exactly what they can build the plant  
18 for.

19 MR. BAXTER: So the plant --

20 MR. MCLENNAN: We can give you some  
21 ballparks. We feel like our bus bar cost on here is  
22 going to be around 14 cents a megawatt at the plant for  
23 what it's going to cost to operate that. We know how  
24 much our bonding will be approximately. There, again,  
25 we don't know when we're going to go to market to buy

1 the bonds, what the rate is going to be, you know, on  
2 that for sure, but we can say generally what's it's  
3 going to estimate for kilowatt hour added to that. But  
4 our combined costs of the 80 percent of the power will  
5 be significantly lower, and that -- we have to fill  
6 that in with intermediate power and peaking power.

7 MR. BAXTER: And would that plant  
8 supply all of your power?

9 MR. MCLENNAN: About 80 percent is what  
10 the maximum --

11 MR. BAXTER: 80 percent.

12 MR. MCLENNAN: We don't want it to  
13 supply a hundred percent of our power because that  
14 wouldn't be cost efficient. So we're shooting for 80  
15 percent because that's the one that our consultants  
16 tell us is the most efficient thing to do, and then we  
17 would fill that in with some intermediate power and  
18 some peaking power to have it there when the immediate  
19 power is too expensive.

20 MR. DEPRIEST: Would this be an  
21 underground or a surface mine?

22 MR. MCLENNAN: This is an underground  
23 mine. It's a high sulfur underground mine, but it's  
24 going to be critical boiler and the pollution things  
25 that are in place to make it one of the most efficient

1 high sulfur plants that we've built so far.

2 MR. SANSOM: Ray, we've got a deal for  
3 you. We've got some mineral rights up there we'll sell  
4 you.

5 MR. MCLENNAN: Down in the future,  
6 we'll see what happens.

7 MS. WILLIAMS: We've all talked a lot  
8 about the rates. Are you concerned about your  
9 reliability going outside of the TVA area? I mean  
10 reliability is one of -- is certainly TVA's -- probably  
11 the best in the world, certainly part of the best in  
12 the country, and I'm curious that you've all talked  
13 about rates, but...

14 MR. MCLENNAN: We're going to have to  
15 rely on MISO's reliability, because that's what we'll  
16 be part of MISO's and the reliability of transmission  
17 and everything coming out of MISO. That's why we would  
18 like to remain connected with TVA's grid as everybody  
19 that touches us. We don't touch another TVA  
20 distributor. We're totally surrounded by Jackson  
21 Purchase, which buys it's power from Big Rivers, which  
22 does have an agreement with TVA, is interconnected with  
23 TVA, and does transfer into some of their power casing  
24 over TVA's grid. That's everybody that surrounds us.

25 So, yes, it would help us to have the

1 reliability of TVA's grid when interconnect and, of  
2 course, if there ever was a chance where "we're using  
3 your electronics," then there would be a cost charge  
4 that we would pay for it as is normal.

5 MS. WILLIAMS: And you said, I heard  
6 you say, I think you said, you're willing to pay just  
7 and reasonable rates, and I guess I'm curious about  
8 what that is. I mean, is that the bottom line?

9 MR. MCLENNAN: What everybody else is  
10 paying now. What Jackson -- what Big Rivers is paying  
11 you know for transmission of power, what LUKG&E is  
12 paying if they transmit your power. We don't want to  
13 pay any less or any more than what they're paying. We  
14 just want to fall in line with them. Nondiscriminatory  
15 rates. Yes, Yes.

16 MR. HUMPHRIES: We've addressed  
17 reliability in two ways. Right now we have one  
18 transmission line from TVA to town. And when we're  
19 finished, assuming TVA would leave that line in place,  
20 we would have two transmission lines to town.  
21 Typically, two is better than one.

22 In addition, we will have peaking  
23 generation inside the city limits in case either or  
24 both transmission lines were to go out of service, we  
25 would be able to serve a portion of our load. We

1 believe with that model, we've addressed our  
2 reliability and it would be as good or better.

3 MR. DUNCAN: Mr. Hayes, in your  
4 testimony, you talked about building equity and the  
5 decision that will affect the future as part of your  
6 core decision making process. I'd like for you to talk  
7 a little bit more about that and is there anything that  
8 TVA could have done to have made you feel more a part  
9 of your future?

10 MR. HAYES: From day one, let me share  
11 with the whole board, that I and Warren have cast no  
12 stones toward TVA. TVA has been an excellent provider  
13 and with the situations of rate disparity in the state  
14 of Kentucky and as much as 40 percent, we as a  
15 management team and board had to search out other  
16 opportunities to serve our membership. I feel that  
17 that's part of my obligation as president. To have  
18 derogatory remarks toward TVA, I will not do that.

19 MR. DUNCAN: It's not derogatory.  
20 It's helping us understand. Rate is part of your  
21 decision, but another part is controlling your future,  
22 and you're going to get that by being on the board of  
23 East Kentucky, and you're going to get that by having  
24 more of a say.

25 What kinds of things could we look in



1 the future to help make distributors feel more a part  
2 of the process?

3 MR. HAYES: Four years ago, I tried  
4 very hard to negotiate a partial requirements contract  
5 with the TVA staff and board and it looked prosperous,  
6 but it fell through a few weeks later for reasons, I  
7 assume, that TVA staff would have to answer.

8 MR. DUNCAN: So choice is one of the  
9 things that you're -- choice is what you're interested  
10 in?

11 MR. HAYES: Yes.

12 MR. ALLISON: You'll find in my written  
13 remarks and some comments as we go through the decision  
14 making process that are very much related to that. One  
15 of the things we will be looking at in evaluating  
16 alternatives is an opportunity to be an equity owner,  
17 to be a buyer as opposed to a renter, to have true  
18 voice in decisions about generation capacity and other  
19 things of that nature.

20 And along those lines, I'd hasten to  
21 say, that there are some very promising discussions  
22 that have gone on, again, under the leadership of Tom  
23 Kilgore that may give us those kind of opportunities  
24 with TVA. I assume that's the gist of your  
25 questioning, because we're very excited about those,

1 and as we compare options in the future, we want to be  
2 in a position of including TVA in the potential  
3 suppliers that we would look at and having the  
4 opportunities for those kinds of choices would be a big  
5 plus as far as we're concerned.

6 MR. DUNCAN: No one likes to lose a  
7 customer in business and if you do, you try to figure  
8 out why so that you can do better in the future, and  
9 that's the tenor of my question. And maybe I should  
10 lead into, what is your view -- we're going to have  
11 another panel that will talk about the TVPPA plan.  
12 From your standpoint, are there any conditions  
13 precedent that would keep the TVA -- TVPPA plan from  
14 working? Are there any conditions from notice  
15 providers that are critical for it to work?

16 MR. HAYES: Are you speaking to me,  
17 sir?

18 MR. DUNCAN: Or the entire panel,  
19 particularly you, I think you mentioned it, Mr. Hayes.

20 MR. HAYES: No, sir. I have no problem  
21 with the plan.

22 MR. ALLISON: We support it a hundred  
23 percent. Again, it didn't give us everything we would  
24 like to see. It's a series of compromises, that's the  
25 nature of making a deal. One of the things in our case

1 that it will force us to do is get off the fence.  
2 We're going to have to make a decision in 180 days  
3 under the plan. We would like to have a year. We  
4 would have like to have two years. Our approach is we  
5 just want to keep all of our options open.

6 Again, our big concern is what's going  
7 to happen is as people start leaving and that TVA debt  
8 still hasn't been paid. We'd like to have as long as  
9 possible, but we think it's a reasonable requirement,  
10 and we're prepared to make that decision, and we  
11 support -- and you have in your packet, we'll give you  
12 a joint statement from all six of us. We all support  
13 the negotiated plan 100 percent.

14 MR. BOTTORFF: So what are the aspects  
15 of the plan that you would like to have that you didn't  
16 get? So tell us what the ideal thing would be.

17 MR. BOTTORFF: What the --

18 MR. ALLISON: I would like to have  
19 longer than 180 days for us to decide. Again, we're  
20 going to have to go through a formal process, and I  
21 would like to have a year as a minimum, but we would  
22 like to have that.

23 You'll find in the plan that anybody  
24 that gives notice in the future as well as those of us  
25 that have given notice, once beyond that

1 reconsideration period that you forfeit all of your  
2 opportunity to come back to the TVA heritage assets.  
3 That's a serious decision you need to evaluate.

4 In the past, TVA has offered the  
5 opportunities for distributors to give notice and then  
6 come back without penalty. That would entail a  
7 potential penalty if you went beyond that period of  
8 time and then decided that you wanted to become a TVA  
9 customer.

10 Another piece of the plan that I would  
11 like to have had personally is if you are one of the  
12 existing noticed distributors, that -- it's an all or  
13 nothing decision for you, you either have to leave with  
14 all your load. Now, for future TVA customers that give  
15 notice, it would be partial requirements. I personally  
16 would have liked to have had a partial requirements  
17 opportunity.

18 There is another piece in the plan that  
19 would allow us to perhaps strike a deal with TVA  
20 separate and apart from our current arrangement. But,  
21 again, I'm not complaining about the plan. I want to  
22 underscore that. It is a series of compromises, and we  
23 support it as written, because it didn't give TVA  
24 everything they wanted. It didn't give us everything  
25 we wanted. It did not give all the noticing

1 distributors or the systems that haven't given notice  
2 everything they wanted. It's a series of compromises  
3 that we all found a way to support, and we're behind it  
4 a hundred percent, and I speak for all of those  
5 noticing distributors in saying that.

6 MR. SANSOM: Anybody else on the panel?  
7 I think we're -- Jim, in particular, I think you're  
8 saying pretty strongly that our interest has got to be  
9 that the onion didn't peel too fast, and we can work  
10 this thing through over time. I think it's --  
11 obviously, we're new, but we've got an obligation to  
12 TVA to be sure and protect what you referred to as the  
13 existing distributors in that rate structure, and so  
14 I -- so that's, I know, our challenge we've got to help  
15 figure that out.

16 We appreciate you all making these  
17 comments, and we understand your position but, Gerald,  
18 I want to ask you on the Eastern Kentucky thing that's  
19 not an ownership issue for you at all, right?

20 MR. HAYES: Yes, sir.

21 MR. SANSOM: Oh, it is.

22 MR. HAYES: We will become an owner.  
23 Now, the Kentucky Public Service Commission and the  
24 state of Kentucky will not allow East Kentucky Power to  
25 subsidize Warren in its membership. There are 16

1 distribution cooperatives that own East Kentucky power  
2 as we speak. Warren RECC will become a member owner,  
3 but we will be set aside, and there will be a 278  
4 megawatt base load generating unit built for Warren's  
5 base load, two 100 megawatt combustion turbines for  
6 intermediate and peaking demands, and we will have a  
7 base rate, and there will be an adder that we will pay  
8 for that capital investment for the generation and  
9 transmission access that will be put in place to serve  
10 Warren.

11 Now -- and we had to sign -- we were  
12 required to sign the length of a contract for the term  
13 of the debt for that capital investment, so we will be  
14 a fully vested member with the equal voting rights.

15 MR. SANSOM: And that plant, what kind  
16 of capital is that? What will that plant cost?

17 MR. HAYES: Half a billion dollars.

18 MR. SANSOM: Okay. And then the -- so  
19 the transmission issue from that plant to you, that's  
20 part of this discussion or --

21 MR. HAYES: Yes.

22 MR. SANSOM: And is there a line  
23 planned then from it to you?

24 MR. HAYES: There is a complete plan  
25 from the east to our service area and from Big Rivers

1 over -- the EB Wilson plant with Big Rivers that would  
2 come into our service territory also, that will consist  
3 of 97 miles of high-voltage transmission.

4 MR. SANSOM: If TVA dropped off your  
5 radar screen, are you okay with the reliability from --  
6 I'm not saying -- I'm just asking this question. What  
7 is your reliability comfort if TVA isn't a backup for  
8 you?

9 MR. HAYES: I would have a certain  
10 degree of dismay, because I have an operations  
11 background and the more sources of power supply that  
12 you have, the better off you are, and with two more  
13 brand new high-voltage lines coming into that area,  
14 there will be significant, positive impact for not only  
15 Warren, but the flow of electricity from east to west  
16 and even some potential back up for TVA if we maintain  
17 total integration and interconnection with both grids.

18 MR. SANSOM: The price of backup, the  
19 price of reliability, is that determinate in this  
20 industry already? In other words, is it?

21 MR. HAYES: No, sir. There are  
22 interconnection agreements all over the United States,  
23 and there has been discussion of loop flow tariff, but  
24 if that did come about, I think that -- I really feel  
25 that that would open Pandora's box all throughout the

1 nation, because of the total integration of the  
2 high-voltage grid that exists.

3 MR. BOTTORFF: So reliability is not a  
4 separate priced function? People don't just buy --  
5 they don't buy backup. People don't just buy backup  
6 for reliability in this business. You got a primary  
7 source and that source may not be able to supply all  
8 your needs and at some point in time you may have to go  
9 some place else. Is there any -- there is no standard  
10 method for just buying back up?

11 MR. HAYES: Not to my knowledge, but  
12 I'm a distribution manager.

13 MR. ALLISON: Can I comment on the  
14 reliability area? It's really got two different  
15 functions or two different pieces. You've got to have  
16 generation and all of us, as we've talked to potential  
17 generation suppliers, you heard John talk about having  
18 peaking in the city. We're putting together portfolios  
19 of generation that will have reliability built into  
20 them for the generation. We're not doing one plant and  
21 if it don't run, we don't have anything.

22 We're building up redundancies in the  
23 different alternatives that we're looking at  
24 generation. Beyond that, the reliability component is  
25 largely driven by the transmission system and the



1 delivery system and the transmission access issue goes  
2 to the very heart of that. TVA opens its system and  
3 allows people to have transmission access. We're  
4 prepared to pay TVA for the transmission function and  
5 that will include reliability components for backup  
6 systems and the transmission system for redundancy in  
7 it.

8 It would represent -- and you've got  
9 your staff here today, but somewhere in the  
10 neighborhood of 10 percent of what you're charging us  
11 for wholesale power is related to your transmission  
12 costs. So we're prepared to continue buying that from  
13 TVA regardless of who we buy power from in the future  
14 and, again, as a system that's in the middle of the TVA  
15 area, we take delivery from TVA at 23 different  
16 delivery points.

17 If we had our own generation sitting  
18 right in Shelbyville, it wouldn't do us any good  
19 without having transmission access. We still need the  
20 system. We feel like we're entitled to it. We've  
21 helped pay for it for the last 60 years, and we feel  
22 like we're entitled to it, and we're willing to  
23 continue to pay a fair share, that just and reasonable  
24 nondiscriminatory rate for that in the event we decide  
25 to leave. And if we decide to stay with TVA, it would

1 be imbedded in the rates that we pay you, so we're  
2 prepared to pay for that reliability on an ongoing  
3 basis.

4 MR. BOTTORFF: Just one thing, Mr.  
5 Chairman, I'm just learning about all this, but one  
6 thing I know is we're supposed to be at TVA sort of the  
7 most reliable, lowest cost provider, and that's part of  
8 the mission, not necessarily the lowest cost, but  
9 certainly the competitive costs. It bothers me to  
10 think that we've got somebody that can buy power  
11 cheaper than we can.

12 And, Tom, I hope you will get out here  
13 and find out, because we want part of this cheap power,  
14 that's all I got to say.

15 MS. HARRIS: Well, I want to follow up  
16 on one thing here and clarify. There is an issue of  
17 reliability, but -- and I don't want to confuse that  
18 with the issue of provider of last resort. So can  
19 you -- and how much that provider of last resort can  
20 charge. I mean, are we -- are you using reliability  
21 and that provider of last resort interchangeably?

22 MR. ALLISON: I, personally, am not.  
23 In the event we decide to go and buy power from  
24 somewhere else, we would be in the position of having  
25 to pay whatever the cost may be for the provision of

1 our power. Take, for example, if we put together a  
2 portfolio of generation that might include some of the  
3 Peabody units, we might include something from East  
4 Kentucky power, and all of the contingencies happen in  
5 that fall apart, we're going to be on the hook to go to  
6 the spot market if it's available to buy the power to  
7 do that, and if we're not, we would have to share in  
8 the transmission interruption just like everybody else  
9 would.

10 There are rules that are followed, you  
11 know, NERC rules and SERC rules, and things of that  
12 nature about how you interrupt that, but we certainly  
13 would be in a position of sharing our portion of the  
14 burden of that for what we caused.

15 MS. HARRIS: But I just want to make  
16 sure that everybody else has the same understanding  
17 when we talk about reliability. Gerald?

18 MR. HAYES: Yes, ma'am.

19 MS. HARRIS: So you agree that there's  
20 provider of last resort and how that's charged, how  
21 you're charged for that versus just transmission  
22 reliability.

23 MR. HAYES: Yes, ma'am. And I do feel  
24 that the relationship of interchange agreements between  
25 East Kentucky Power and TVA can be good for each other.

1 I do know that last month, a tornado took out two  
2 towers in the Summershade line that belongs to TVA, and  
3 East Kentucky Power has interchange agreements with TVA  
4 on that line, and East Kentucky Power was a resource  
5 for TVA during that crisis, so I do feel that both  
6 parties can -- could be good for each other.

7 MR. DEPRIEST: Gerald, is your decision  
8 irrevocable? Are you committed so much that you can't  
9 come back to TVA?

10 MR. HAYES: Yes, sir.

11 MR. HUMPHRIES: On the back up, I  
12 wanted to make one comment to maybe clarify and to the  
13 questions, we believe TVA will need peaking generation  
14 in the future. We are installing peaking generation  
15 inside our city, which it's not big, I know, but every  
16 little bit helps. That line can be used two ways, not  
17 just to provide us backup in case it were come to be  
18 needed. It can be used for us to sell TVA power, and  
19 we're very open to that and willing to work out any  
20 sort of arrangements beneficial to both parties. So I  
21 think when you think of a line, you have to think of it  
22 as a two-way line instead of just the way it has been  
23 for 40 years, one-way line.

24 MR. THRAILKILL: Mr. Allison, you  
25 mentioned your support of the compromised plan worked

1 out in draft form with TVPPA. If something of that  
2 structure or something similar to it were enacted, how  
3 would that alter your business decisions?

4 MR. ALLISON: It would accelerate our  
5 need to make a decision. As I mentioned earlier, I  
6 would like to have a year. The plan calls for 180  
7 days. As I understand it, TVA will probably want to  
8 have a little less than that, at least TVA management.  
9 But it was a compromise. But it will accelerate our  
10 need to make a decision. One of the reasons we agreed  
11 to the two-year extension with TVA is that we had been  
12 following the long-term contract discussions, and I  
13 don't know if you're familiar with that, but TVA and  
14 TVPPA had been having those, and they got stalled for a  
15 variety of reasons.

16 We think they've got a lot of promise.  
17 We would very much like to have the opportunity to see  
18 those evolve to certainty before we're put in the  
19 position of having to decide to fish or cut bait.  
20 Whether 180 days will afford that opportunity or not,  
21 remains to be seen. But I think it's a reasonable  
22 requirement to ask us to make that decision fairly  
23 forthright once the transmission access issue is  
24 disposed of with finality and that would be when the  
25 clock would start ticking. But it would accelerate us

1 to make the decision one way or the other is the  
2 primary impact.

3 MR. SANSOM: Let me thank you all for  
4 participating in this panel. We've heard a lot about  
5 this, and I think you've helped us a lot. We respect  
6 your problem when power is cheaper somewhere else, and  
7 especially, when you're surrounded by those people that  
8 are serving -- buying from somebody else. We  
9 understand that. We have a responsibility sitting on  
10 this board for TVA, and we've got to be sure we  
11 understand and carry out that responsibility.

12 We, again, appreciate you all coming  
13 and trying to help us understand this issue, and we'll  
14 work on it. Thank you very much. Tom.

15 MR. KILGORE: Thank you, gentlemen. If  
16 I could ask you to step down and ask our second panel  
17 to step up.

18 MR. DUNCAN: Mr. Kilgore, could I ask  
19 that the written remarks be made part of the record and  
20 they be distributed to each member of the committee.

21 MR. KILGORE: The written remarks will  
22 be made a part of that. And let me also say, Director  
23 Duncan, on that score that the record will remain open  
24 for about seven days, so anybody that wasn't invited to  
25 testify here that wants to submit comments, can do so.

1 We'll put them in the record and post them to our web  
2 site, so any written comments, these and others can be  
3 made part of the record. Okay.

4           Gentlemen, if we could have our second  
5 panel. As these folks are being seated, I would like  
6 to introduce them, and then we'll hear from them as we  
7 did the first panel. They also represent four of the  
8 distributors in the Tennessee Valley region. They are  
9 Harold DePriest, president and CEO of the Electric  
10 Power Board of Chattanooga. Eston Glover, manager of  
11 Pennyrile Rural Electric Cooperation here in Kentucky,  
12 and Eston is keeping the lights on for us here today.  
13 I think he would tell you a little humorously he's got  
14 something tied together, and he told them not to risk  
15 untying it until the meeting is over. He may remark  
16 about that.

17           Fred Hayslett, who is general manager  
18 of Columbus Light and Water Department in Mississippi,  
19 and George Kitchens the general manager of Joe Wheeler  
20 Electric Membership Corporation in Alabama.

21           Panel members, I will remind you the  
22 yellow light will remind you when you have two minutes  
23 left. The red light will come on when you're out of  
24 time. We're not going to jerk you off. I think the  
25 first one worked well, so it's really for your benefit